

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

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Application of Wisconsin Energy Corporation  
For Approval to Acquire the Outstanding  
Common Stock of Integrys Energy Group, Inc.

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9400-YO-100

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**INITIAL POST-HEARING BRIEF OF INTEGRYS ENERGY GROUP, INC.**

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The Commission should approve Wisconsin Energy Corporation's ("WEC") application to acquire the outstanding common stock of Integrys Energy Group, Inc. ("Integrys"). The evidence presented in this docket demonstrates that this acquisition ("the Transaction") is in the best interest of the relevant stakeholders. *See* Wis. Stat. § 196.795(3).

The Transaction will create a larger, financially stronger, and more diverse utility holding company, WEC Energy Group, Inc., which will be able to raise capital at lower cost, have access to a more diversified generation portfolio, continue to prudently invest in needed infrastructure, and continue to serve and contribute to the Wisconsin communities that it serves. The Transaction will also create opportunities for long-term cost savings through (among other things) enhanced purchasing power, economies of scale, joint resource planning over a geographically larger and more diverse system, and other efficiencies in operations and maintenance and project management. In this way, the Transaction will produce substantial benefits for utility consumers, investors, and the general public.

The Commission should reject Staff's proposal to establish in this proceeding an amount of savings from the Transaction that should be included in Wisconsin Public Service Corporation's ("WPSC") revenue requirement in the company's anticipated 2016 test year rate case. Wisconsin law does not require that potential savings from the Transaction be immediately

returned to ratepayers. Moreover, neither WEC nor Integrys has justified the Transaction on the basis that it will provide immediate savings to customers—rather, any such savings are likely to be realized over the long-term. It would therefore be inappropriate to establish a savings amount to be included in WPSC’s 2016 revenue requirement.

## **ARGUMENT**

### **I. THE COMMISSION SHOULD APPROVE THE TRANSACTION.**

The Commission should approve the Transaction because it will benefit Integrys’ customers, employees, shareholders, and the general public. Integrys is a public utility holding company that owns and operates five regulated electric and natural gas utilities in four states, including WPSC, which has 445,000 electric customers and 323,000 natural gas customers in northeast and central Wisconsin and a small portion of the Upper Peninsula of Michigan.

(Direct-WEC-Schott-3:1-7, 4:5-8) After the Transaction, these customers will notice virtually no change in their interactions with WPSC; the Transaction will have no immediate impact on rates, and WPSC will continue to provide adequate, safe, and reliable service. (*Id.* at 6:2-4) WPSC will also maintain its Wisconsin roots: the company’s operational headquarters and the associated jobs will remain in Green Bay, and the Company will continue to support and have a strong local presence in the communities that it serves. (Direct-WEC-Lauber-8:1-5, 10:18 to 11:2)

The Transaction will also produce benefits for WPSC’s employees and shareholders. The Transaction is not like many other corporate consolidations, in which cost savings and synergies are achieved through immediate reductions in employee headcount. Rather, WEC expects that most workforce reductions will occur through attrition. Moreover, WEC will honor all existing union contracts. (Direct-Schott-6:11-17) WPSC’s shareholders—

many of whom are WPSC employees and retirees—will receive a premium for the stock that they currently hold, and at closing, they will hold an investment in a larger, more diverse, and financially robust energy company. (Direct-WEC-Schott-6:21 to 7:3) Moreover, given its strong cash flows, WEC Energy Group will be able to internally fund infrastructure projects of subsidiaries such as WPSC, which avoids “the incremental fees and costs of using debt or equity” to fund said projects. (Direct-WEC-Schott-7:5-9)

Thus, it is clear that the Transaction will produce benefits for customers, employees, and shareholders, and for the general public. However, one item that has received a great deal of attention in this proceeding is the synergies that will result from the Transaction and the savings that these synergies will produce for customers. WEC believes that the Transaction will, over time, produce savings for ratepayers as a result of operational efficiencies and economies of scale, but it has not attempted to justify this Transaction on the basis that these synergies will produce savings in the near-term. (Direct-WEC-Lauber-7:6-8; Direct-WEC-Reed-32:18-22; Rebuttal-WEC-Reed-8:6-13, 16:11-18; Rebuttal-WEC-Lauber-18:19 to 19:2) This is because short-term savings in mergers are typically the result of immediate layoffs, and as mentioned, WEC does not anticipate significantly reducing employee headcounts in the short-term. (Direct-WEC-Lauber-7:6-8; Direct-WEC-Reed-33:3-6) Rather, it anticipates achieving long-term savings through (among other things) enhanced purchasing power, economies of scale, joint resource planning over a larger and more diverse system, spreading out administrative costs over a larger organization, and improved use of technology. (Direct-WEC-Reed-34:2-7, 38:3-13)

## **II. NO SAVINGS AMOUNT SHOULD BE ESTABLISHED IN THIS PROCEEDING FOR WPSC'S 2016 TEST YEAR RATE CASE.**

Despite the clear evidence that the Transaction will not generate immediate savings, at least not at a level that exceeds the costs to achieve them, Staff proposes that the Commission determine in this proceeding an amount of such savings to be included in WPSC's revenue requirement in its anticipated 2016 test year rate case. (Direct-PSC-Larson-5:16-27; Surrebuttal-PSC-Larson-2:1-6; Ex.-PSC-Hubert-1: Schedule 1 at 3-4)<sup>1</sup> In particular, Staff suggests that WPSC's 2016 revenue requirement should reflect a two to four percent reduction in non-fuel operations and maintenance ("O&M") costs in the first year following the merger. (Larson Hearing Tr. Vol. 4 at 201:17 to 202:19)<sup>2</sup>

The Commission should reject Staff's proposed condition for several reasons. First, the Wisconsin Public Utility Holding Act requires that holding company mergers be "in the best interests of utility consumers, investors, and the public," *see* Wis. Stat. § 196.795(3), but as WEC notes in its Initial Brief, the Commission has not historically required that such mergers produce immediate benefits for ratepayers. In other words, Wisconsin law does not require merger-related savings to be refunded to customers before such savings are even realized. (*See* Rebuttal-WEC-Reed-12:16-2, 16:1-3) If the Commission agrees, then it should reject Staff's proposal to require WPSC to include merger-related savings in its 2016 revenue requirement.

Moreover, this proposed condition assumes that WEC Energy Group and/or its public utility subsidiaries (such as WPSC) will experience immediate savings—a fact which, as discussed above, is contradicted by the record evidence. (*See* Direct-WEC-Lauber-7:6-8; Direct-WEC-Reed-32:18-22; Rebuttal-WEC-Reed-8:6-13, 16:11-18; Rebuttal-WEC-Lauber-18:19 to

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<sup>1</sup> This proposed condition is identified as Item 93 in Ex.-WEC-Lauber-4.

<sup>2</sup> WPSC agrees with Staff that the Commission need not determine the scope of WPSC's 2016 test year rate case in this proceeding. (Sur-Sur-Rebuttal-PSC-Larson-1:15-19)

19:2) Indeed, a newly merged entity typically experiences negative savings (any savings are exceeded by the costs to achieve them) in the first year (and sometimes two) following a merger. (Reed Hearing Tr. Vol. 4 at 143:24 to 144:10, 146:9-16) Mr. Larson agreed that any forecast of WPSC's potential savings in 2016 should also consider the costs to achieve them. (Larson Hearing Tr. Vol. 4 at 204:1-2)

As Mr. Larson made clear, the 2-4% O&M cost savings he cited is not a forecast of actual net savings that WPSC will experience in 2016, but rather a selected value from the calculations presented by Staff witness O'Donnell. (Id. at 204:2-11) These calculations merely present how this range of O&M savings would translate into "rate credits" for each WEC Energy Group operating company. (Dir.-Staff-O'Donnell-29p, Table 1)

Ultimately, it is unnecessary to require WPSC to refund merger savings to customers when those savings have yet to be achieved. WEC has committed to identify and track merger-related savings and costs, to file and provide a detailed explanation of this information to the Commission over the next five years (at least), and to use any net savings to offset any future increase in revenue requirements. (Rebuttal-WEC-Reed-16:19 to 18:19) This will ensure that ratepayers will receive any savings from the merger. (Id. at 18:16-19)

## CONCLUSION

For the reasons discussed above, Integrys respectfully requests that the Commission approve the Transaction without a condition establishing an amount of merger-related savings in WPSC's anticipated 2016 rate case.

Dated this 30th day of March, 2015.

Respectfully submitted,

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